UK retail sales fell in the first three months of the year, the first quarterly fall since 2013. With rising prices squeezing their incomes, it looks as if consumers have decided to tighten their belts.

Window shopping. Towards the end of last year UK consumers went on a spending spree. The cash savings rate was *minus* 2.2%: we spent £5.8bn more than we received in income. But the first quarter was payback time. The quantity bought from retailers was down 1.7% m/m in March. Comparing the three months to March with the three months to December 2016, volumes were down 1.4%.

Inflation bites. Inflation is the culprit. Average store prices were 3.3% higher than a year earlier, putting a squeeze on households’ spending power. How consumers respond to the additional inflation that is coming down the line will be the main determinant of the UK’s economic fortunes in 2017. Carry on as they have done, cutting their cloth to fit their more constrained disposable income and growth will slow throughout the year. At present, it looks as if that’s the likely outcome rather than further plundering of savings or reaching for the credit card.

Upgrade. Words in the titles of the International Monetary Fund’s semi-annual ‘World Economic Outlook’ have said it all about the state of the global economy in recent years – ‘…clouds, uncertainties’, ‘subdued demand’ and ‘too slow for too long’. Not so last week. Noting the recovery in investment, manufacturing and trade the IMF went for an optimistic ‘Gaining Momentum?’. It’s pencilling in a global expansion this year of 3.5%. That’s in the ‘decent’ category, closer to the rate seen in the 1990s but some way off the super strong 2000s. Still, we’ll take it. It’s more optimistic on the UK, too, forecasting 2% growth this year. That’s almost double last October’s estimate and in line with the Bank of England and OBR.

Quicker here, too. China has also done its bit to boost the global economy’s performance. Its been on an upswing of late and expanded 6.8%y/y in Q1, the fastest rate since Q3 2015. And with prices in its industrial sector no longer falling the nominal rate of growth reached its highest since 2012. They are talked about less than previously, but worries in the country’s financial sector haven’t receded. In fact, they continue to build with debt playing a big role in the the growth rebound. But it’s an issue to be tackled another day. The leadership is looking ahead to the 19th national congress – the all-important political transition into President Xi’s second term.

Goodbye austerity? Another reason for a rosier outlook is a marked change in the fiscal stance of some of the major developed economies. After a brief dose of fiscal largesse, the post-crisis years have been about austerity and the ‘fiscal impulse’ has been negative. That changed last year, the fiscal impulse turned positive, i.e. governments became more supportive of growth. The biggest contributer has been the US. And its budget deficit is set to keep on rising. Those who fear rising debt levels will recoil. But it’s good for growth when a $19trn economy raises government spending.

Hello debt? The size and timing of President Trump's tax cutting and infrastructure spending plan are still uncertain but the IMF thinks it will have a big effect on the US public finances. It expects the deficit to rise above 5% of GDP from 2019. In comparison, the U.K. and EZ economies' deficits are likely to be just 1% by that point. Those differences will add up. Europe will see falling debt to GDP ratios each year, according to these forecasts, whilst the US heads towards 90% by 2021. Expect to hear a lot about the "debt ceiling" if this comes to pass.

Resurrection. The Eurozone economy is moribund no more. Indeed it has the most blossomy spring in its step with reported business activity on the PMI hitting 56.7, the strongest in six years and suggestive of annual GDP growth above 3%. Consequently, firms need more staff and so employment growth in some sectors, notably manufacturing, is the highest since the year 2000. It's not just Germany. The French economy has rediscovered it's *joie de vivre*. That is is good news all round, for UK exporters, Brexit negotiators and, especially, for the 16m unemployed souls within the Eurozone.

Ouch. Milton Friedman, economic superstar and the intellectual force behind 1980s' liberalism once declared that inflation was always and everywhere a monetary phenomenon. Maybe so. But the real reason inflation in the Eurozone is up 1.5%y/y in March is rising energy prices and not the c.5% annual increase in credit. And rising energy prices, largely set globally, are why inflation is increasing almost everywhere. Of course here in the UK we have to manage the decline in sterling too. So British consumers face the double whammy of a weaker £ alongside rising energy prices. Prepare to be pinched.